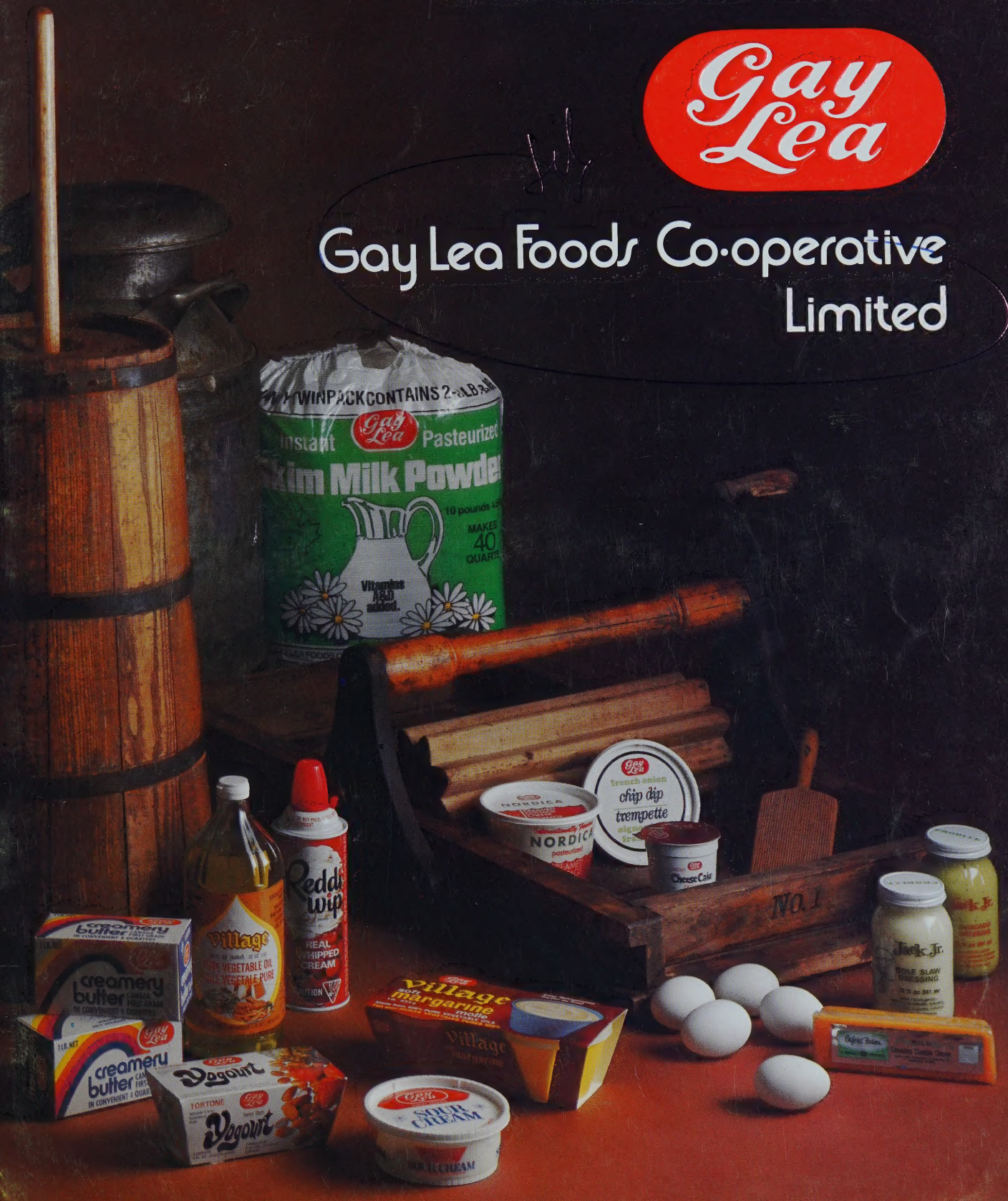


AR25

1975 ANNUAL REPORT

*Gay
Lea*

Gay Lea Foods Co-operative
Limited



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ZONE MEETING AGENDA

Lunch

Introductions

President's Address

Presentation of Desk Sets

1. Minutes

2. Chairman's Remarks

3. Directors' Report

4. Management Report

5. Financial Statements
Question Period

6. Election of 10 Delegates for 3 year terms

7. Election of Zone Director — 2 year term

8. Discussions and Questions
Adjournment

FINANCIAL HIGHLIGHTS

	1975	1974	% change
Sales	\$72,606,668	\$52,744,258	+ 37.6
Net Earnings	1,030,362	854,078	+ 20.6
Per Share	6.49	6.00	+ 8.2
Shareholders' Equity	4,637,213	3,512,988	+ 32.0
Per Share	29.19	24.67	+ 18.3
Working Capital	3,333,842	1,874,751	+ 77.8
Number of Shareholders	3,633	3,601	+ 0.9
Declared Dividend	127,087	113,899	+ 11.6
Per Share	.80	.80	—



1974-1975 BOARD OF DIRECTORS

Standing (left to right)

Howard Wilson, Owen Sound (Director)
 Robert Turner, Owen Sound (Director)
 John Campbell, Bayfield (Director)
 Gerald O'Grady, Listowel (Director)
 David Ireland, Teeswater (Director)

Seated (left to right)

Walter Hamel, Elmwood (Vice-President)
 Melville Proud, Tara (President)
 Russell McCutcheon, Owen Sound
 (2nd Vice-President)
 Bert Tuintjer, Laurel, Director

DIRECTORS' REPORT

to the 1975 Annual Meeting

Your Board of Directors takes pleasure in reporting to the shareholders of our co-operative for the past fiscal year. This has been a very interesting year for our organization; we have delved into unfamiliar fields as well as relatively familiar ones in our quest to obtain a larger share of the food processing industry in Ontario.

It is becoming ever more challenging to operate our plants efficiently in the present day social and economic climate, especially considering the increasing volume of milk supply from Ontario dairy farms taxing our facilities almost to the limit. Milk powder surpluses in the major food producing countries have drastically affected world market prices and, in turn, prices to milk producers in Canada. Regardless of our problems we feel that the successful operations of our plants have again given us the privilege of providing you with a most satisfying financial statement. Gay Lea Foods is now a recognized leader in the dairy food processing industry in Ontario and retaining this status is a demanding task for each one of us.

OPERATIONS

Towards the end of the fiscal year we completed the purchase of CF Capital Foods, a division of Capital Diversified. The CF Capital Foods plant at Strathroy manufactures butter patties and reddies, distributes butter and operates an egg grading station.

Following the acquisition of controlling interest in Villa Nova Milk Products Ltd. in 1973, we have been continuing to redeem the shares owned by the remaining shareholders. At the end of the financial year, Gay Lea Foods held 97.31% of the Villa Nova shares.

Properties no longer in use by the co-operative are gradually being disposed of; this past year the Wingham and Kimberley plants were sold and the property at Villa Nova remains on the market.

EDIBLE OILS

Your co-operative moved into the field of edible oils in March with the acquisition of a division of Agra Foods and their manufacturing plant at Fenmar Drive, Weston. Now operating as the Fenmar Branch of Gay Lea Foods, the plant produces margarine, salad dressings and salad oils under the Village, Kismet and Jack Jr. brand names.

With this acquisition we are now serving producers of rapeseed and soya bean oil and these vegetable oil products complement our line of dairy and frozen foods for the chain stores and food service industry; in addition, they give us distribution throughout Eastern Canada.

DEBENTURE INTEREST RATES

Owing to the changing money market, debenture interest rates were adjusted twice during the year. Effective March 1, 1975, our rates were: 3 year — 8%; 5 year — 9%; 10 year — 10%. Effective June 30, 1975, the 5 year and 10 year rates were increased to 9½% and 10½% respectively.

DIVIDENDS AND SHARE VALUE

Out of earnings your Directors have declared a dividend of 80¢ per share on common shares. This is still the largest dividend permitted under the Ontario Co-operative Corporations Act.

Since January, 1975, the Board has allotted common shares at \$13.00. Beginning in January, 1976, shares will be allotted at \$14.00.

MEMBERSHIP

Your co-operative gained some new members through the transfer of Villa Nova shares to Gay Lea shares but in the absence of a major acquisition such as another producer-owned dairy company we were unable to equal last year's total of 172 new members. In the year under review our fieldmen and delegates signed 127 members. 95 were lost due to deaths, retirement, etc., leaving a total of 3,633 members compared with 3,601 a year ago.

In an attempt to increase membership, an advertisement was placed in two fall issues of the Ontario Milk Producer, inviting dairy farmers to "Join Our Milk Marketing Team". Interested producers were invited to send in for a membership kit and the response to date has been encouraging.

DELEGATES

Attendance at the quarterly delegate meetings held during the year was excellent and many delegates also assisted our fieldmen in providing producers' names for membership canvassing; in some cases delegates also helped directly in the canvass.

DIRECTORS' REPORT

(continued)

This past year was the first in which your co-operative operated with 30 delegates in each of two zones and although the delegates are encouraged to look at the co-operative's operations as a whole, rather than concentrating upon one plant, as the former plant committee members did, the Board has been very much encouraged by the interest which has been sustained and would like to express its appreciation to the delegates.

MEMBER BUSINESS

Your co-operative has been working to increase the percentage of business done with members and several large organizations that supply us with product joined Gay Lea Foods during the year. The new Ontario Co-operative Corporations Act requires that a co-operative should conduct 80% of its business with members and, if this is not achieved, the actual percentage of member business must appear in the annual report. In 1975, our percentage was 65.1%.

CLAYSON ROAD OFFICE EXPANSION

After three years at Clayson Road the office space became inadequate, particularly following the acquisition of the Fenmar plant and the integration of its sales staff with the Clayson Road sales department. Plans for an addition, which included moving the boardroom to the front of the building and providing additional office space, were approved and work began in the fall.

EDUCATION

The President and Executive Vice-President attended a Senior Executives' Course at the Co-operative College, Saskatoon, in May. A day planned by the Board to be devoted to long term planning and board/management responsibilities unfortunately had to be curtailed owing to a major storm. However, the Board did spend time revising the co-operative's policies and goals at regular meetings.

At the invitation of the Ministry of Industry, Trade & Commerce, Lloyd Stephens, with four other representatives from dairy manufacturing companies across the country, spent two weeks in the Soviet Union in July on a Dairy Technology Mission arranged by the Canadian Government. This was the first such mission to visit Russia and study their dairy manufacturing methods and we were glad to have our Vice-President, Production take part.

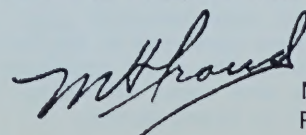
Your co-operative again sponsored the attendance of three young people at the Co-op Youth camp in August.

The fall tour for directors, delegates and their wives travelled by air to Minneapolis in October to visit the various facilities of Land O'Lakes Inc. in and around the city.

Gay Lea Foods association with Land O'Lakes goes back to the nineteen fifties, when United Dairy & Poultry Co-operative (the original name of our organization) was being planned. The new co-operative, which began business in 1958, was largely modelled after the Land O'Lakes marketing organization. Everyone who took part in the tour was most appreciative of the warm hospitality shown by our hosts in Minnesota.

STAFF

As reported last year, Gay Lea Foods is now operating with separate Production and Sales Divisions. In February, the Board confirmed the appointment of Lloyd Stephens as Vice-President, Production, and Peter Infelise as Vice-President, Marketing, with Joe Brooks continuing as Vice-President, Finance. Late in the year Bernard McGrogan was appointed Employee Relations Manager for the co-operative. Our head office took over the administration of the Weston and Woodstock payrolls from United Co-operatives of Ontario in the past year and this change, together with the addition of the Fenmar Branch, necessitated greater strength in the personnel area. Improvements in employee benefits during the year included an increase in the cost of Extended Health Care for employees, and in the employer's portion of the Pension Plan contribution. Staff tours were encouraged and the Tara and Fenmar branch employees visited the Clayson Road plant in Weston. In April a group of Clayson Road employees toured the Guelph plant. We had 442 employees at the end of the year, compared with 343 a year ago; most of this increase was the result of the acquisitions during 1975. The Directors wish to welcome all the new employees and would like to thank all members of the staff for their fine efforts during the year which have contributed so much towards the success of our operations.



M. H. PROUD,
President

Don't bother to clip this \$1.00 coupon!

(Just tear out the page)



\$1.00

COUPON

Simply wrap this page around product of purchase and present to cashier. Valid in all areas of 5 different Gay Lea food products and send to:

Gay Lea Foods
General Order Office
P.O. Box 1034
Rexdale, Ontario

We'll send you \$1.00 plus a special coupon worth another \$1.00

NAME _____

ADDRESS _____

CITY _____ PROV _____ CODE _____

Gay Lea Foods are made right here. Close to home. Which means that all of the freshness, taste and quality we make them with gets to you as soon as possible. To any of our products listed below. The one you'll be back for more.

Swiss Style Yogurt Convenient, practical, creamy, smooth yogurt in a variety of 1/2 gallon sizes that are right for you.

Nordica Cream Cheese The smooth, rich cream cheese in convenient 8 oz. tubs. The exclusive double seal to look in all the best texture.

Cheese Cake The only cheese cake dessert made up in a cup. New flavors including vanilla.

Chip Dip Tangy French Onion. Great for snacks and a real party item. Be sure to look for the Gay Lea logo.

Reddi Wip & Top Wip An ideal topping made with real whipped cream.

Creamery Butter Fresh, creamy butter in convenient 4 oz. tubs, half pound and one pound tubs.

Skim Milk Powder Now you can make instant milk for less than 20¢ a quart.

Village & Kismet Margarine In your choice of tub or one pound block. Either way, we think you'll be more than satisfied.

Jack Jr. Salad Dressings Ten delicious recipes to choose from. All made with choice ingredients, white eggs and fresh spices. It's so creamy you can't tell it's from the jar.

Sour Cream It's got a freshness that hasn't been touched. A naturally cultured product made from fresh cream.

Deluxe Farm Cheese Specialty selected from naturally aged cheddar cheese.

Dairy Spread A new technological blend with the butter flavor.

Village Oil A truly refined salad and cooking oil with the right taste.



a fresh look at food products

A strong, memorable corporate identity is an essential asset to any company. These few examples of our advertising demonstrate Gay Lea's involvement and concern for our Canadian community, our awareness of the needs of today's consumer and the pride we take in producing quality food products. Our advertising has a high degree of public acceptance and consumer participation.

"Sally Ann" needs these lids this Christmas

With your help, Sally Ann's Gay Lea Sour Cream and Gay Lea Chip Dip are going to be worth thousands of dollars. Sally Ann's Christmas. Because every time you mail in one of these lids, Gay Lea Foods will donate \$1 to the Salvation Army. And although \$1 doesn't sound like much, we're counting on you to send enough lids to make Christmas happy for others this year.

When you're shopping for nuts to stock up on, look for the Gay Lea Chip Dip or Gay Lea Sour Cream and then mail the lids to the Salvation Army Christmas Headquarters, 3 Hamilton St., Toronto, M5R 2J1. Simply mailing in your lids will do the trick. No need to wait until January. We'll tell you how much Gay Lea lids were worth to the Salvation Army.

At year end you'll be sending a little Gay Lea to your loved ones. Chip Dip, Cheese Cake Spread, and many other fine Gay Lea products. But, most of all, helping Gay Lea and the Salvation Army put a little happiness in someone else's Christmas. Mail in your lids, because a little means a lot to Sally Ann.



Gay Lea Foods Limited
1000 Highway 7 East
Rexdale, Ontario
M9W 1A1

Won two!

Last year, Gay Lea butter won the 1st Place Grand Championship Award at the Royal Agricultural Winter Fair. This year, our butter won the Highest Scoring Silver Award at the Canadian National Exhibition.

That's what happens when you pay particular attention to freshness, taste and quality. And we do that with all of our fresh food products from Gay Lea. From butter to yogurt to chip dip to sour cream to cottage cheese to margarine to milk powder.



Try some
You be the judge
and see.



CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended September 30, 1975 (With comparative amounts for 1974)

	1975	%	1974	%
SALES	\$72,606,668	100.0	\$52,744,258	100.0
COST OF GOODS SOLD				
(Including \$533,211 depreciation in 1975 and \$364,553 in 1974) (Note 1)	65,899,499	90.8	47,316,606	89.7
GROSS MARGIN	6,707,169	9.2	5,427,652	10.3
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Depreciation (Note 1)	123,445		147,338	
Remuneration of directors and senior officers	179,442		167,086	
Interest on long term debt	279,315		244,953	
Interest on short term loans	34,668		71,881	
Goodwill written off (Note 1)	525,854		441,000	
Other expenses	3,399,621		2,606,444	
	4,542,345	6.2	3,678,702	7.0
EARNINGS ON OPERATIONS	2,164,824	3.0	1,748,950	3.3
OTHER				
Loss on disposal of fixed assets — net	24,192		3,538	
Government grants received	—		(104,666)	
	24,192	0.1	(101,128)	(0.2)
EARNINGS BEFORE INCOME TAXES	2,140,632	2.9	1,850,078	3.5
PROVISION FOR INCOME TAXES	1,110,270	1.5	996,000	1.9
NET EARNINGS FOR THE YEAR	\$ 1,030,362	1.4	\$ 854,078	1.6

The accompanying notes are an integral part of these financial statements. 6.49

per share 6.00

G.H. WARD & PARTNERS

77 CITY CENTRE DRIVE, MISSISSAUGA L5B 1M5
111 RICHMOND STREET WEST, TORONTO M5H 2G7

Chartered Accountants

MISSISSAUGA (416) 270-7700
TORONTO (416) 363-5735

PLEASE REPLY TO MISSISSAUGA OFFICE

**AUDITORS'
REPORT**

To the Shareholders
Gay Lea Foods Co-operative Limited

We have examined the consolidated balance sheet of Gay Lea Foods Co-operative Limited, and its subsidiaries, as at September 30, 1975 and the consolidated statements of operations, general reserve, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the co-operative and its subsidiaries as at September 30, 1975 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

G. H. Ward & Partners

Toronto, Ontario
October 31, 1975

Chartered Accountants

CONSOLIDATED BALANCE SHEET

(With comparative amounts)

ASSETS

CURRENT

	1975	1974
Cash	\$ 875,053	\$ 174,136
Accounts receivable, less allowance for doubtful accounts (1975 — \$74,503; 1974 — \$59,340)	5,940,128	3,784,705
Inventories, valued at the lower of cost or net realizable value (Note 1)	6,820,678	5,080,881
Prepaid expenses	94,708	32,433
Taxes recoverable	62,953	—
Total current assets	<u>13,793,520</u>	<u>9,072,155</u>

PROPERTY AND EQUIPMENT (Note 1)

	Cost	Accumulated Depreciation	Net
Land	\$ 248,487	\$ —	\$ 248,487
Buildings	2,560,912	412,012	2,148,900
Machinery and equipment	6,302,103	3,159,842	3,142,261
Automobiles and trucks	851,818	656,532	195,286
Leasehold improvements	64,998	3,118	61,880
	<u>\$10,028,318</u>	<u>\$ 4,231,504</u>	
			<u>5,796,814</u>
			<u>3,660,217</u>

OTHER ASSETS

Accounts receivable, not due within one year	20,753	44,298
Mortgages receivable	213,334	198,713
Loans to and investments in other co-operatives — at cost	41,435	41,305
	<u>275,522</u>	<u>284,316</u>
	<u>\$19,865,856</u>	<u>\$13,016,688</u>

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

M. H. PROUD, Director

W. HAMEL, Director

OPERATIVE LIMITED

Companies

T AT SEPTEMBER 30, 1975

at September 30, 1974)

LIABILITIES AND MEMBERS' EQUITY

CURRENT

Outstanding cheques	\$ 911,281	\$ 410,810
Bank loan — secured (Note 4)	228,000	848,800
Accounts payable and accrued expenses	8,480,397	4,968,993
Current instalments on long-term debt (Note 2)	840,000	358,340
Taxes payable	—	610,461
Total current liabilities	10,459,678	7,197,404

DEFERRED INCOME TAXES	502,735	332,834
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LONG-TERM DEBT (Note 2)	4,247,076	1,954,672
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Total liabilities	15,209,489	9,484,910
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MEMBERS' EQUITY

Capital Stock

Authorized:

200,000 Co-operative common shares of \$10 par value	<u>\$2,000,000</u>
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Issued and fully paid:

158,859 Co-operative common shares of which 16,485 shares were issued during the year for cash	1,588,590	1,423,740
Partial payments received on common shares subscribed for, but not yet issued	19,154	18,790

1,607,744	1,442,530
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CONTRIBUTED SURPLUS (Note 3)	107,944	62,009
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GENERAL RESERVE — see statement	2,940,679	2,027,239
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4,656,367	3,531,778
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<u>\$19,865,856</u>	<u>\$13,016,688</u>
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The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF GENERAL RESERVE

For the year ended September 30, 1975
(With comparative amounts for 1974)

	<u>1975</u>	<u>1974</u>
BALANCE, beginning of year	\$ 2,027,239	\$ 1,275,278
Deduct: Dividend on common shares — 80¢ per share	116,922	102,117
	<u>1,910,317</u>	<u>1,173,161</u>
Net earnings for the year	1,030,362	854,078
BALANCE, end of year	<u>\$ 2,940,679</u>	<u>\$ 2,027,239</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended September 30, 1975
(With comparative amounts for 1974)

	<u>1975</u>	<u>1974</u>
SOURCE OF FUNDS		
Net funds derived from operations		
Net earnings for the year	\$ 1,030,362	\$ 854,078
Add: Charges to operations which did not require the outlay of funds		
Depreciation	656,656	511,891
Goodwill written off	525,854	441,000
Deferred income taxes	179,001	48,799
Total arising from operations	<u>2,391,873</u>	<u>1,855,768</u>
Mortgage advances	1,325,063	—
Funds received on notes payable	1,255,800	72,325
Debentures issued	364,860	58,640
Common shares issued	164,850	147,280
Disposal of fixed assets — net book value	107,364	50,022
Decrease in long term accounts receivable — net	23,545	—
Increase in partial payments received on shares subscribed for, but not yet issued	364	1,310
Contributed surplus (Note 3)	45,936	28,202
	<u>5,679,655</u>	<u>2,213,547</u>
APPLICATION OF FUNDS		
Additions to property and equipment	2,909,718	478,373
Dividends on shares	116,922	102,117
Reduction of debentures	118,430	67,680
Reduction of notes payable	235,800	927,325
Increase in mortgages receivable — net	14,621	1,449
Increase in investment in other co-operatives	130	100
Mortgage repayments	299,089	69,230
Goodwill purchased	525,854	—
	<u>4,220,564</u>	<u>1,646,274</u>
INCREASE IN WORKING CAPITAL	<u>\$ 1,459,091</u>	<u>\$ 567,273</u>
WORKING CAPITAL		
Current assets	\$13,793,520	\$ 9,072,155
Current liabilities	10,459,678	7,197,404
WORKING CAPITAL	<u>\$ 3,333,842</u>	<u>\$ 1,874,751</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1975

1. ACCOUNTING POLICIES

Principles of Consolidation

The subsidiary companies consolidated in these financial statements are Villa Nova Holdings Limited, Villa Nova Milk Products Limited, CF Capital Foods Limited and Gay Lea Foods of Pennsylvania, Inc. Except for a nominal minority interest in Villa Nova Milk Products Limited these subsidiaries are wholly-owned and are consolidated as at September 30, 1975.

Inventories

Manufacturers and cutters of butter are permitted, under an arrangement with the Canadian Dairy Commission, to sell butter to the Commission for government storage, during certain periods, at a fixed price. The Commission then undertakes to resell the butter back to the manufacturer or cutter during a specified period at the current government purchase price for such butter.

At September 30, 1975, butter in government storage, priced at the lower of the co-operative's cost or net realizable value, amounted to \$1,719,123, and is included in the total inventory figure of \$6,820,678 as shown in the co-operatives balance sheet. Funds advanced by the Canadian Dairy Commission relating to butter held in government storage at September 30, 1975 amount to \$1,732,943 and is included in the balance sheet as part of accounts payable and accrued expenses. This accounting treatment is consistent with the previous year.

Depreciation

Depreciation has been provided on the fixed assets of the co-operative on a straight-line basis at rates estimated to provide fully for the cost of the fixed assets over their useful lives, as follows:

Building	— 2½ %
Machinery and equipment	— 10%
Automobiles and trucks	— 30% in first year decreasing to 10% in fifth year
Leasehold improvements	— amortized over the period of the lease

Goodwill

It is and has been the policy of the co-operative to write off goodwill as a charge to operations during the year in which the goodwill is acquired. This policy does not agree with the procedure recommended by the Canadian Institute of Chartered Accountants which is that goodwill be amortized on a straight-line basis over a reasonable number of years. Had the co-operative complied with such recommended procedure the net income would have been increased by \$525,854 less whatever amount would have been amortized in the current year.

2. LONG-TERM DEBT

	5%	5½%	6%	7½% to 7¾%	8-8½%	9-10½%	Total
Debentures	\$	\$	\$	\$	\$	\$	\$
1976 & prior	10,180	2,120	36,170	22,690	136,810		207,970
1977			12,470	8,550	7,130		28,150
1978	11,260		6,160	470	26,930		44,820
1979	700		500		500		26,580
1980		400	4,420		55,800	24,880	168,940
1981		260	11,500		115,480		127,240
1982		1,910	6,330		26,350		34,590
1983		24,460	2,900		29,570		56,930
1984	100,000	30,010			6,080	17,370	153,460
1985	100,000	102,700			20,000	226,250	448,950
1986	100,000	100					100,100
1987	100,000						100,000
1988	90,000						90,000
	512,140	161,960	80,450	31,710	424,650	376,820	1,587,730

Less: Principal repayments due within one year 207,970
1,379,760

Mortgages

5¼% payable over the next 9 years in equal instalments of \$46,730	\$ 373,842
8% due 1986, payable \$12,500 per annum	137,500
6% due 1976, payable \$10,000 per annum	20,000
10% due 1980, payable \$221,800 per annum	1,109,000
9¼% due 1978, payable \$2,035 per month	213,204
	1,853,546
Less: Principal repayments due within one year	296,230
	1,557,316

Notes Payable

— due 1975	65,800
7% due 1977-78	65,000
7¼% due 1977	40,000
7½% due 1976	75,000
8% due 1979	11,000
9% due 1976	95,000
8% due 1980	14,000
9% due 1978	20,000
9¼% due on demand	100,000
10¼% due 1978 to 1985	160,000
1% above prime bank rate due 1978	1,000,000
	1,645,800
Less: Principal repayments due within one year	335,800
	1,310,000

TOTAL LONG TERM DEBT \$4,247,076

During the year, new debentures totalling \$364,860 were issued and debentures totalling \$99,570 were redeemed.

3. CONTRIBUTED SURPLUS

Effective January 1, 1971 the co-operative commenced issuing common shares at a price in excess of their par value of \$10. The increase in the contributed surplus during the year of \$45,935 represents the premium received from these common share transactions during the year.

4. SECURITY FOR BANK LOAN

The bank loan is secured by an assignment of the accounts receivable and inventory.

5. NON-MEMBER BUSINESS

Non-member business for the year ended September 30, 1975 was approximately 35% of the total volume.

MANAGEMENT REPORT

for year ending September 30, 1975

Your co-operative has had another year of successful operations and management is pleased to report on some of the contributing factors. Increased milk production, along with our two acquisitions — Agra Foods, Weston and Capital Foods, Strathroy — have all contributed to 37.6% sales increase to \$72,606,668. The other factor contributing to our sales dollar increase is higher product prices. However, after taking this into consideration we had a substantial increase in total unit volume. Net earnings show some increase over a year ago and work out to 1.4¢ of each sales dollar.

During the past year management adopted a management structure on a functional basis and we are finding that this concept allows us to concentrate in depth on particular areas of responsibility. Our production division's main concern is keeping our production facilities operating as efficiently as possible, whether it be butter and powder manufacturing, egg processing or margarine packaging. The marketing division consists of the sales personnel who must develop the sales programs that are going to move our products to the consumer through the retail food stores and the food service industry. The finance division has the responsibility of making sure that our financial position is secure at all times and, in addition, this division prepares the reports and statements that are necessary to measure results from month to month throughout the year. The employee relations division administers our wages, salaries and fringe benefit programs and also develops employee training programs to ensure promotion from within our ranks to more responsible positions.

Increasing prices to producers for raw product, which is necessary if our producers are going to have viable operations on their farms, plus the other increased costs for energy, supplies, packages, wages and salaries, etc. has resulted in higher prices to consumers. We are reporting on this particular problem because your management is finding it increasingly difficult to pass on our rising costs in the prices that we charge for finished products.

Your management has had some problems with integrating the edible oil products into our system but we believe the future looks brighter and that the decision to diversify was a good one. Since we began operations in March at our Fenmar Branch the vegetable oil prices have declined about 10¢ per lb. and this has had an adverse affect on earnings from this branch. However, this is a temporary situation and when you consider the trend from butterfat pro-

ducts to vegetable oil products and the need for our trucks to carry a fuller product line to our customers, it is not difficult to see the wisdom of our move into edible oil products.

Confidence in co-operative marketing by producers continues at a high level as demonstrated by the increase in share capital which is supplied by member shareholders; by the delegates whom you elect who meet regularly during the year to review operations and participate in developing policy, and by your Board of Directors, who sacrifice time at home in order to attend monthly board meetings when they check on all phases of our operations and develop and approve all policies for your co-operative. It is this kind of participation and communication which gives your management clear objectives to reach and policies to follow and makes our job as managers both more challenging and more rewarding.

PRODUCTION

In the twelve months under review total milk marketings by the Ontario Milk Marketing Board increased by 5.0% to 5.2 billion pounds. The trend to increased milk production appeared first in June 1974 and, except for a 1% decrease in October 1974, there has been a pattern of steady increase, averaging about 7% through the summer months and reaching 9.9% in September. Preceding June 1974 there had been a period of over 30 months of consecutive decreases. Higher Federal support prices for butter and skim milk powder, along with a stronger market for cheese, brought higher milk prices in all classifications and encouraged production. Another factor leading to improved milk production was the decision of the Ministry of Agriculture and Food to extend the Industrial Milk Production Incentive Program to June 30, 1975 which also served to provide encouragement to milk producers. In the 1973 program 2,165 producer loans totalling \$27 million were approved. In the 1974 program, to August 1975, 980 loans totalling \$13 million have been approved, bringing the two year total to \$40 million, with a projection of an additional 451 million lbs. of increased production, roughly 11 lbs. of milk for each \$1.00 borrowed. As you know, our Board, delegates and staff have followed this program with interest and support. It is interesting to note that 30% of the applications may be identified with Grey, Bruce, Huron, Perth, and Wellington counties where, in turn, a high percentage of our membership is located.



H. J. BROOKS
Vice-President
Finance and Treasurer

P. J. INFELISE
Vice-President
Marketing

T. E. BRADY
Executive Vice-President
and General Manager

L. A. STEPHENS
Vice-President
Production

GAY LEA MANAGEMENT STRUCTURE

T. E. BRADY

Assistant Secretary (Mrs. P. Dick)

MARKETING

P. J. INFELISE

PRODUCTION

L. A. STEPHENS

FINANCE

H. J. BROOKS

EMPLOYEE RELATIONS

B. P. McGROGAN

Food Service
P. RUSSELL

Administrative Assistant
F. CHITTICK

Weston
D. DEVEREAUX

Accounting
J. DUNCAN

Personnel
M. HODGKINSON

Dairy Products
G. FICE

Guelph
P. McLINDEN

Fenmar
B. CAMPBELL

Credit
R. SMART

Special Services
V. KISHIMOTO

Tara
M. McLEAN

Research and
Quality Control
V. AMER

Chain Stores
H. PICKEN

Woodstock and Seaforth
K. GALBRAITH

Strathroy
F. DOUCETTE

With further reference to Federal support prices, in August 1974 butter had been advanced 8¢ to 85¢ a pound and powder by 4¢ to 54¢ a pound. In January 1975 prices advanced a further 5¢ to support butter at 90¢ and powder at 59¢. In April 1975 butter was advanced a further 13¢ to \$1.03, and powder by 5¢ to 64¢. A year ago the Class V price to butter — powder plants was \$6.85 per cwt., increasing in January to \$7.38 and in April to \$8.21, an increase of 20% over October 1974 and 32% over April 1974. While a modest increase in processing allowance of 9.2¢ per cwt., equivalent to 8.8%, was granted in April 1975 over April 1974, the gross margin allowed processors declined from 13.2% to 11.98%.

Industrial milk processors under quota, faced with sharply rising costs of labour and fuel particularly, appealed to the Milk Commission of Ontario against the Board's decision and asked for improved consideration. The appeal was vigorously opposed by the Board, who argued that more milk volume would be available, and the appeal was subsequently denied. In the plant supply quota year 1974/1975 our quota had been 62.8% of the base period of 1968/1969, whereas for the 1975/1976 quota year the forecast has been increased to 69% in Western Ontario. Some relief was realized through higher milk receipts in the processing plants under quota. With the combination of a 5% increase in total marketings in the 12 months under review, and a decrease of 1% in Class I fluid sales in the same period, total plant supply quota volumes increased by 14.7%, resulting in some reduction in the fixed portion of overhead costs. This resulted in 39% of total milk marketings being processed in plants under quota, compared with 36% in the previous year. It should be noted here that advance joint planning by processors and the Board brought good co-operation and, with improved direction of supplies, record volumes were processed in the flush production season.

Ontario's production of the three main products increased as follows:

	Oct. 1973/ Sept. 1974	Oct. 1974/ Sept. 1975	Inc.	%
	(000's lbs. omitted)			
Butter	74,195	81,338	7,143	9.6
Powder	70,147	86,580	16,433	23.4
Cheddar Cheese	65,905	69,222	3,317	5.0
TOTAL	210,247	237,140	26,893	12.8

While butter production has increased this year, it is against the trend of the past five years as indicated in the figures below:

	Production*	Consumption*	Imports*	Lbs. per Capita
1970	328	328	—	15.32
1971	286	329	8	15.22
1972	291	317	4	14.50
1973	252	293	62	13.25
1974	232	290	54	12.93

*million of lbs.

It is not felt at the present time that any imported butter will be required this year. It is expected that the Canadian production of margarine may be equal to or greater than that of butter when the 1975 figures are released. These factors along with much lower prices for edible oils were given careful consideration prior to our entry into the manufacture of margarine earlier this year.

A number of operational changes have taken place, in addition to the acquisition of Fenmar and Strathroy which brought to eight the number of operating locations in the production division. Farm separated cream operations were consolidated with the closing of receiving stations at Flesherton and Durham in November and the cream directed to Tara; the close out and sale of the former Maitland Creamery at Wingham in December with the cream directed to Arthur; the completion in February of the butter storage freezer at Guelph providing a capacity of 1.5 million pounds; the start of construction of the powder storage building in Tara with a capacity of 2.3 million pounds; the near-completion of the expanded quality control laboratory in the former auditorium at Guelph, along with provision for improved facilities for delegate and staff meetings. The addition of Strathroy extends our distribution area and increases our volume in both eggs and butter, as well as providing the opportunity to work co-operatively with egg producers to ensure an adequate supply for efficient operations and increased marketings.

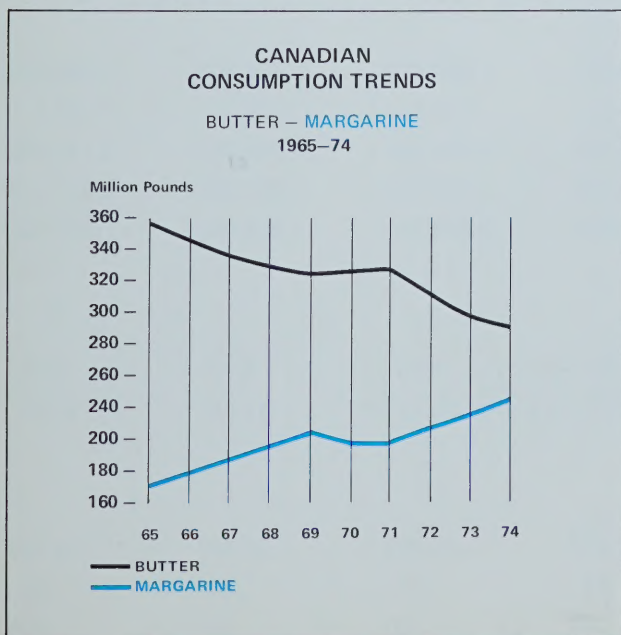
In conclusion, with the acquisitions, management and operational changes and heavy summer volume, we are fortunate that Frank Chittick consented to postpone his retirement. In the span of the past 13 years he has made an important contribution to the operations of our Company.

MARKETING

Sales volume continued to expand in the past year with our basic products — butter and milk powder — realizing steady, increased growth. Egg, cheddar cheese and some of our dairy products sales were down slightly primarily due to a decrease in consumption. However, cottage cheese, chip dip and sour cream showed substantial gains during a year of increased competition and economic uncertainties. The acquisition of CF Capital Foods will enable us to re-organize our distribution in south western Ontario. The addition of the butter reddies and pattie production will assist our food service division in maintaining steady growth in the coming year.

Midway in the fiscal year Gay Lea Foods purchased the Eastern Canadian Edible Oil Division of Agra Foods. Products such as Village and Kismet margarines, Village pure vegetable salad oil and Jack Jr. dressings were added to our Gay Lea product line. This was an important acquisition as it reflects the accelerating changes in to-day's complex market place.

Although our butter sales volume continued to increase during the past year, per capita consumption continued to decrease. Since 1965 butter consumption has dropped by over five pounds per person,



while margarine consumption has increased by over two pounds per person. Salad oil consumption more than doubled — from 2.54 lbs. to 5.65 lbs. per person during this same ten year period.

The edible oils acquisition also enables us to stimulate sales growth, as it moved your company into a multi-provincial position with sales and distribution from Thunder Bay, Ontario to St. John's, Newfoundland. To maximize the efficiency of our sales personnel we plan to distribute a number of our quality dairy products throughout Eastern Canada.

Advertising is another key element in the sound growth of Gay Lea Foods. We are increasingly aware of the rapid change in our customers' and consumers' needs. This is brought about by the present economic conditions, changes in life styles and social habits. We are continually striving to maintain our well deserved reputation for quality food products and food-dollar value. To this end our advertising and sales promotion programmes are especially created not only to promote the purchase of Gay Lea products but also to demonstrate that we are involved as a part of the Canadian community and take our social responsibilities seriously. In this way we assist our customers, consumers and worthwhile organizations. As an illustration, we created a special Christmas campaign for Gay Lea sour cream and chip dip involving consumers and in co-operation with the Salvation Army, which resulted in a substantial donation for their work.

Several other advertisements ran throughout the year demonstrating our quality products and food-dollar values — some of these are reproduced elsewhere in this report.

Of prime importance in our marketing objectives is packaging. Throughout the coming year all of our packages will be converted to meet the Canadian Packaging & Labelling Act and they will also incorporate the Canadian Grocery Product Code. We are also preparing for the extremely complex conversion to metric-size packaging. The conversion to a metric system of measurement will affect nearly every aspect of Canadian life but it will provide the advantages of a system that is both simple and universal. All of these changes take considerable organization and consume an enormous amount of time, manpower, resources and money. The increased challenges in the coming year will be met with the introduction of new products — expansion of our sales to Eastern Canada and the consolidation and streamlining of our distribution system throughout the company.

FINANCE

The operations and activities of Gay Lea continued at a high level during 1975 despite increasingly serious inflation and uncertain economic conditions throughout most of the year.

Sales increased by 37.6% while net earnings increased by 20.6%. Total assets increased by 52.6% while shareholders' equity increased by 32.0%. Much of this growth in total assets is attributable to our

two latest acquisitions, Fenmar and Strathroy Branches, from which improved earnings are expected in 1976.

Interest rates, which were 11½% last September, declined during the year to a low of 9.0% for the six month period from March to September but ended up at 9¼% at September 30th. It is difficult to forecast, at this time, the interest rates to which our co-operative will be subjected in the new year.

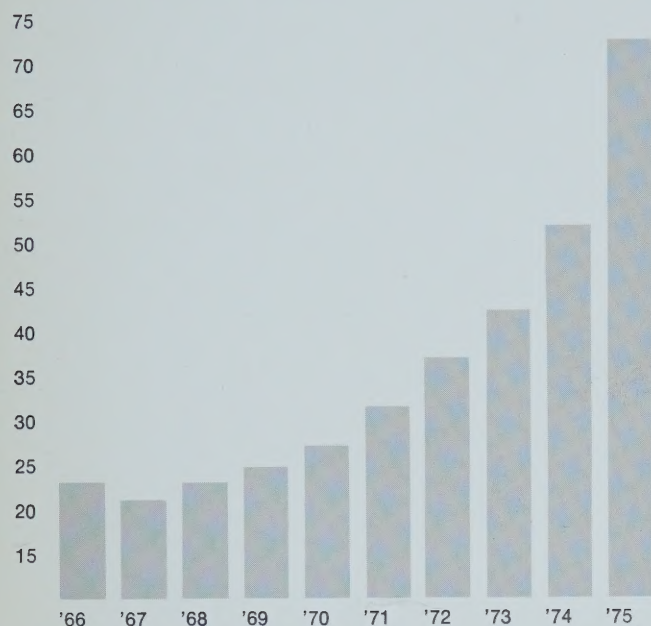
FIVE YEAR REVIEW

	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
OPERATIONS					
Sales	\$72,606,668	\$52,744,258	\$42,746,291	\$38,430,826	\$31,309,707
Gross Margin	6,707,169	5,427,652	3,770,866	3,274,472	2,583,164
Gross Margin — % of Sales	9.2%	10.3%	8.8%	8.5%	8.2%
Net Earnings	1,030,362	854,078	556,151	311,098	324,517
Net Earnings — % of Sales	1.4%	1.6%	1.3%	0.8%	1.1%
Return on Investment	11.6%	15.6%	10.1%	6.4%	8.5%
FINANCIAL POSITION					
Working Capital	3,333,842	1,874,751	1,307,478	1,602,803	1,239,615
Current Ratio	1.32:1	1.26:1	1.25:1	1.38:1	1.24:1
Total Assets	19,865,856	13,016,688	10,883,336	9,352,568	9,140,196
Long-Term Debt	4,247,076	1,954,672	2,887,942	2,901,632	2,217,012
Shareholders' Equity	4,637,213	3,512,988	2,585,546	1,964,048	1,591,553
PER COMMON SHARE					
Net Earnings	6.49	6.00	4.36	2.73	3.22
Net Book Value	29.19	24.67	20.25	17.35	15.80
OTHER					
Dividends — common shares	116,922	102,117	91,052	80,607	74,152
Dividends — common share	.80	.80	.80	.80	.80
Number of employees	442	343	330	257	265

TEN YEAR REVIEW

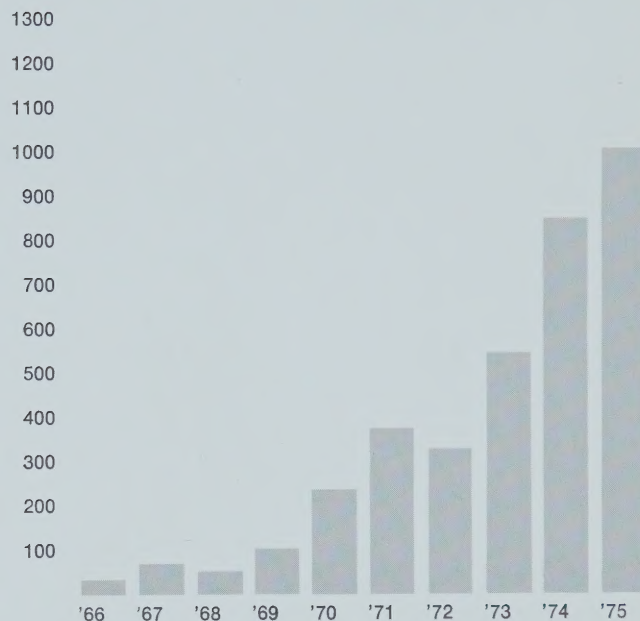
SALES

Millions of dollars



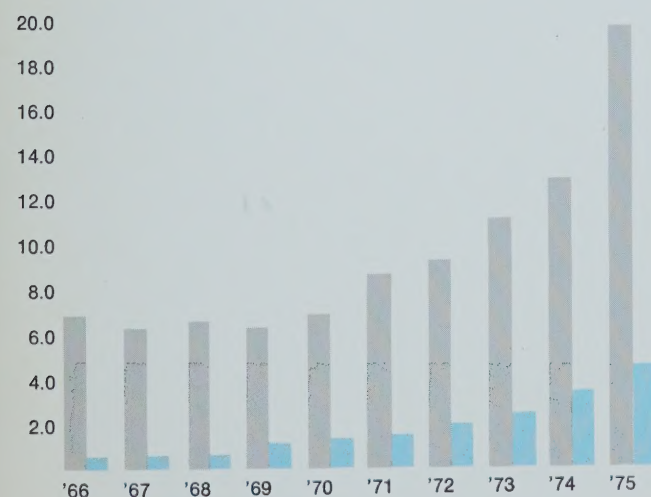
NET EARNINGS

Thousands of dollars



TOTAL ASSETS/MEMBER EQUITY

Millions of dollars



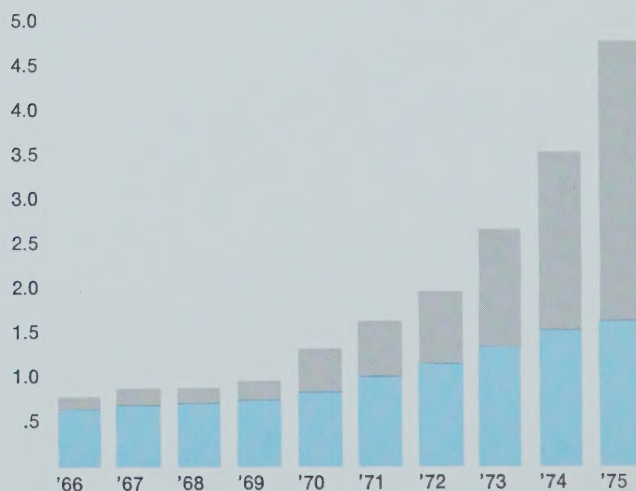
% Member equity to total assets

11.4 14.1 13.0 15.4 18.6 17.6 21.5 23.9 26.9 23.1

Total assets
 Member equity

MEMBER EQUITY

Millions of dollars



General reserve
 Shares

